

ESAF Microfinance and Investments Private Limited

February 02, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	349.58	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	349.58 (Rupees Three hundred Forty Nine Crore and Fifty Eight Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The rating assigned to bank facilities of ESAF Microfinance and Investments Private Ltd (EMFIL) continues to factor in the experience of the promoter & management team in microfinance industry, adequate capitalization, good asset quality, loan management and information systems. The rating continues to be constrained by geographically concentrated loan portfolio and concentrated funding source. The rating also factors in inherent risks associated with the microfinance industry including socio-political and regulatory risks.

Going forward, the ability of the company to diversify the loan portfolio across geographies, maintain comfortable asset quality and capital adequacy while increasing its scale of operations and evolving regulatory environment are the key rating sensitivities. Further, ability of the company to manage its transition into a small finance bank will also be a key rating sensitivity.

Detailed description of the key rating drivers

Mr. Paul Thomas, Founder and Managing Director of EMFIL, holds Master's Degree in Business Administration. He has over 26 years of industry experience, of which more than 16 years is in the Microfinance sector. He has also worked with IFFCO, world's largest cooperative owned fertilizer company before starting ESAF. He is one of the Directors in Microfinance Institutions Network (MFIN) and Chairman of KAMFI (Kerala Association of Microfinance Institutions). He is supported by well qualified and experienced team which has rich experience in the financial services and microfinance sector.

EMFIL has well established structure to monitor the operations at different levels. It has defined credit appraisal, collection and monitoring systems. It has also induced credit discipline amongst borrowers through center meetings, training programs, proper documentation to ensure smooth functioning of its operations. Further, the company has a strong internal audit team wherein detailed, surprise and short audit is carried out periodically.

The company earns major portion of the income from lending to microfinance sector under JLG model. The loans are extended for the purpose of income generation and meeting expenses like housing, personal consumption, etc. As on March 31, 2016, income generating loans accounted for 68% of AUM and income from lending activity continues to be major source of revenue for EMFIL. AUM witnessed growth of 89% from Rs.1,016 crore as on March 31, 2015 to Rs.1,925 crore as on March 31, 2016 backed by continuous increase in disbursements on y-o-y basis. The disbursements witnessed growth of 104% from Rs.1,170 crore in FY15 to Rs.2,388 crore in FY16. During FY16, EMFIL made around 38% of the total

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

disbursement in Q4FY16 and hence NIM moderated from 8.16% in FY15 to 7.64% in FY16. ROTA also has moderated from 2.71% in FY15 to 2.49% in FY16. With the increase in disbursements during Q2FY17 by 54%, AUM increased to Rs.2,382 crore as on September 30, 2016 as against Rs.1,925 crore as on March 31, 2016.

During FY16, fee based income from other allied activities like micro insurance, pension funds has increased from Rs.17 crore (including processing fees) in FY15 to Rs.31 crore in FY16. The fee-based services provided by EMFIL include aggregation of NPS (Lite) Scheme for Pension Fund Regulatory and Development Authority of India (PFRDA), aggregation of Mahatma Gandhi Pravasi Suraksha Yojana, Corporate Agent for SBI Life Insurance and sub agent for Money transfer schemes run by Western Union and Xpress Money. Additionally, with the RBI circular allowing NBFCs to act as Business Correspondent, the company has signed an agreement with Edelweiss Financial Services Limited and Yes Bank, Kotak Mahindra Bank and IndusInd Bank. EMFIL will source and monitor the microfinance loan portfolio and will receive a monitoring fee of 12% of the total interest collected on the managed portfolio. The portfolio o/s as under BC route as on March 31, 2016 is Rs.183 crore.

During FY16, EMFIL received fresh equity infusion of Rs.118.36 crore from various Individuals and Institutional Investors like ESAF Multi State Co-operative Society Limited, ESAF Staff Welfare Trust, Dia Vikas Capital Private Limited, Manaveeya Development and Finance Private Limited and SIDBI Trustee Company Limited. Subsequent to the equity infusion of Rs.118.36 crore, CAR also improved from 18.22% as on March 31, 2015 to 21.30% as on March 31, 2016. On account of investments of Rs.108 crore in the subsidiary ESAF Small Finance Bank Ltd (SFB), CAR dropped to 18.17% as on September 30, 2016.

Asset quality is comfortable with GNPA of 0.24% and NIL Net NPA as on March 31, 2016 as compared to 0.47% and NIL NPA respectively as on March 31, 2015. The GNPA and NNPA stood at 0.46% and NIL as on September 30, 2016. The Company has formed Credit Monitoring Cell (CMC) for addressing the delinquent accounts and to concentrate on the collections.

Although EMFIL has presence in 83 districts spanning 10 states, Kerala continues to constitute the major portion of portfolio with 67% share of AUM as on March 31, 2016 (P.Y. 72%), followed by Tamil Nadu at 15% (P.Y. 13%) and Maharashtra at 9% (P.Y. 10%). Other states namely Chhattisgarh, Madhya Pradesh, Bihar, Puducherry, Karnataka, West Bengal and Jharkhand constitute the rest.

EMFIL's major source of funding is borrowings from banks and FIs which constituted around 80% of the total borrowings as on March 31, 2016 as against 90% as on March 31, 2015. The reduction in bank share is due to higher amount of funds raised through NCDs during FY16. The company has mobilized funds of Rs.172 crore during FY16. Amongst banks, it has good mix of both private sector and public sector banks. Further, EMFIL has raised funds through securitization route as well by securitizing assets amounting to Rs.608 crore in FY16 as against Rs.273 crore in FY15. Even though the funds mobilized through various sources provide some diversification to the resource profile, the volume of funds raised through banks continues to remain high and is likely to come down in the future.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Non Banking Finance Companies \(NBFCs\)](#)

About the Company

ESAF Microfinance & Investments Pvt. Ltd. (EMFIL), part of Kerala based ESAF group is registered with RBI as a non-deposit accepting, systemically important non-banking financial company. The company had got approval from RBI for NBFC-MFI with effect from January 07, 2014. Kerala based Mr. K. Paul Thomas had established Evangelical Social Action Forum (ESAF) in 1992 at Thrissur. ESAF is registered as charitable society under Travancore Cochin Literal and Scientific Charitable Societies Act of 1955. The group has ventured into microfinance activity through ESAF by starting 'Micro Enterprises Development' program in 1995. Later, the group has acquired a Chennai based NBFC "Pinnai Finance and Investments Private Limited" (PFIL) in 2006. Subsequently, the name of PFIL was changed to current form in March 2007. With effect from March 31, 2008, EMFIL had taken over all the assets and liabilities of Micro finance business carried under Micro Enterprise Development division of ESAF society. During FY14, the stake held by ESAF SHG Federation (ESAF) of 63% has been transferred to ESAF Swarasya Multi-State Co-Operative Credit Society (ESCCO), at face value. As on March 31, 2016, ESCCO holds 51.36%, Dia Vikas Capital Private Limited (21.03%), SIDBI Trustee Company Limited (12.89), Manaveeya Development and Finance Private Limited (4.50%), Mr. K. Paul Thomas (4.85%), ESAF Staff Welfare Trust (4.23%) and others (1.14%).

EMFIL is primarily engaged in providing microfinance loans based on the Joint Liability Group (JLG) model. EMFIL also provides loans to individual members (primarily women) in the JLG group. EMFIL is currently operating through 251 branches in 83 districts spread across Kerala, Tamil Nadu, Maharashtra, Chhattisgarh, Madhya Pradesh, Jharkhand, West Bengal, Karnataka, Bihar and Puducherry as on March 31, 2016. Of the total assets under management (AUM) of Rs.1,925 crore, Kerala, Tamil Nadu and Maharashtra accounted for 66%, 16% and 9% respectively as on March 31, 2016.

EMFIL is one of the entities to be granted 'In-Principle' approval by Reserve Bank of India (RBI) in September 2015 for setting up of small finance bank. The company has received final license for carrying on small finance bank operations, on November 18, 2016 and is in the process of obtaining all the requisite approvals for launching the bank.

During FY16, the company reported PAT of Rs.34 crore on a total income of Rs.318 crore. During H1FY17, the company reported PAT of Rs.43 crore on a total income of Rs.216 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund Based - LT-Term Loan	-	-	January 2019	339.58	CARE A-; Stable
Fund Based - LT-Cash Credit	-	-	-	10.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	339.58	CARE A-; Stable	1)CARE A- (04-Nov-16)	1)CARE BBB+ (23-Oct-15)	1)CARE BBB (21-Oct-14)	1)CARE BBB- (08-Oct-13)
2.	Fund Based - LT-Cash Credit	LT	10.00	CARE A-; Stable	1)CARE A- (04-Nov-16)	1)CARE BBB+ (23-Oct-15)	1)CARE BBB (21-Oct-14)	1)CARE BBB- (08-Oct-13)

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